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Don't take extreme climate slogans at face value

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Body

I recently read a paper in the law literature celebrating the rise of "climate risk disclosure" requirements now being imposed on public companies. The author discussed at length why the market has failed to price climate risk into investments and argued that many public companies are worth far less than their stock market valuations because climate change will eventually wipe them out.

And not just fossil energy companies - any company relying on physical assets in coastal regions or most kinds of outdoor work are toast due to rising seas and extreme weather. The puzzle she set out to explain is why the market has failed to recognize this. Thankfully, she concluded, new disclosure rules will allow investors to finally get the information they need to save their portfolios.

Economists are skeptical of claims that financial markets fail to account for relevant information, especially information supposedly known by the world's experts. Yes, markets frequently make short-term errors, but with so much money at stake the players have very strong incentives to eventually get valuations right. Information about climate change is not privately held by companies. So what, exactly, are they supposed to "disclose"? Here, as in so many other reports, articles, speeches and pamphlets, the author lapsed into slogans. Climate risk means "extreme weather" - storms, floods, drought, etc. They've all been getting worse and the future looks bleak, "experts say."

Fine, but just because some observers - even scientists with Ph.D.s - issue warnings of impending doom doesn't mean a company's managers are obliged to instantly change their operations and issue their own warnings to shareholders. Suppose someone with relevant expertise declares that the ground under Rogers Stadium is about to sink into Lake Ontario. That would merit investigation. But it doesn't oblige the stadium owners to immediately abandon the building and move uphill. And, after investigating the matter, the owners would have the right, indeed the obligation, to dismiss the warning if they believed it was unfounded.

To say that companies are obliged to investigate and declare climate risks does not mean they're obliged to endorse climate alarmism or activist sloganeering. If after investigating they conclude the risks are relatively small compared to ordinary economic and technological changes, they should say so. After all, taken at the level of the entire economy, that's what the Intergovernmental Panel on Climate Change (IPCC) concluded in its last Assessment Report.

In 2013 the IPCC issued its Fifth Assessment Report, which included a chapter on the effects of climate change on key economic sectors and services. Their headline conclusion read: "For most economic sectors, the impact of climate change will be small relative to the impacts of other drivers. Changes in population, age, income, technology, relative prices, lifestyle, regulation, governance, and many other aspects of socioeconomic

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development will have an impact on the supply and demand of economic goods and services that is large relative to the impact of **climate** change."

In other words, for most companies, the risks of **climate** change are small. But what about a company that faces a specific weather-related risk? Here the challenge is to bridge the gap between slogans and actual evidence.

Suppose, for instance, that a company seeks to disclose its risk from extreme precipitation and flooding, mindful of activist claims that such risk is rising due to anthropogenic **climate** change. The IPCC attributes most observed **climate** change since 1950 to greenhouse gases. But in its 2012 report on extreme weather, it also concluded: "In the United States and Canada during the 20th century and in the early 21st century, there is no compelling evidence for **climate**-driven changes in the magnitude or frequency of floods." That same year two scientists at the U.S. Geological Survey published a study on longterm streamflow records at 200 sites across the United States in which they tested for evidence of trends due to global mean carbon dioxide (GMCO₂) levels. They concluded: "In none of the four regions defined in this study is there strong statistical evidence for flood magnitudes increasing with increasing GMCO₂."

And in 2019, the federal government's Environment and **Climate** Change Canada concluded, "For Canada as a whole, observational evidence of changes in extreme precipitation amounts, accumulated over periods of a day or less, is lacking" - though it added that, "in the future, daily extreme precipitation is projected to increase." There's the rub. The models say precipitation events should get more extreme as the atmosphere warms. But that hasn't happened yet. Maybe it will in the future. Or not. Other studies show models do poorly at simulating regional precipitation changes.

What should a company do if it's obliged to disclose risks due to changes in extreme precipitation and flooding? My advice would be to make sure you can handle the full range of weather risks you're likely to face, based on history, including occasional flood events. But don't take slogans about future **climate** extremes at face value. Start with official sources, check the data, read the expert literature and test the models. And if you conclude that the impact of **climate** change will be small relative to other drivers, say so. You'll be echoing what the top experts already conclude.

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